

# REGIONAL INEQUALITIES IN INDONESIA IN THE LATE COLONIAL PERIOD

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## Abstract

This paper broadly sketches the regional contrasts in trade and economic development in late colonial Indonesia, and explores the significance of these differences in the national income. The development over time in shipping and trade provides evidence of the way the world economic situation affected the regional economies. Some regions were more representative for events described in (macro-)economic history, while others showed different, more individual or deviant characteristics. The regional economic diversity in Indonesia is the central theme in this paper.

## Introduction

A crisis is never equally experienced as a crisis at every level of society, nor in every region. Sometimes an economic crisis is due to a necessary structural adjustment within one sector of the economy, which draws other sectors into a downward spiral. Some regions may be more affected than others, particularly because some regions depend heavily on economically vulnerable sectors, while other regions may grow against the grain.

The unity of Indonesia embraces a diversity of strengths and weaknesses. Historians have carried on multiple debates leading to the conclusion that regional contrasts explain paradoxical or opposite observations or that one region may *not* always be representative to the whole. For example, discussions on the fruit or burden of the cultivation system in nineteenth century Java have led to such conclusions. In the nineteenth century the cultivation system in Java disturbed economic development in some regions, while it benefited regional incomes in others (Elson 1984). Likewise, themes such as the advantages of raw materials exports and the subsequent economic vulnerability, and the structural stagnation in Java due to over-exploitation of resources by the sugar industry, have produced the understanding that regional differences matter.

In much writing on economic history, particularly in quantitative investigation, macroeconomic analysis occupies an important place. For example, aggregated data can be analysed over time to study the effects of national government policy on the economic development. Various endogenous causes for stagnating economic growth can be identified. And furthermore, macroeconomists enjoy making statements about countries by comparing them to other countries. In short, macroeconomics views a country as one unity.

Most historians, however, will intend to provide regional information in their analysis as well: in order to add historical events to the broader generalizations, or, one might say, to add flesh to the bone. As Griffiths remarks, "the analysis at a purely national level of such momentous developments as industrialization or economic growth may have only limited usefulness. Whilst the nation may be the best, and sometimes the only, context for the compilation of the statistical series necessary to illustrate these developments, the aggregative data may lead one to assume a common experience which may have had no existence in reality and may thus obscure the rich diversity in patterns and settings of economic development which lie below" (Griffiths 1982: 513).

This statement refers to the assumption in classical economic theory that Ricardean comparative advantage presupposes a homogeneous domestic economy, which, in fact, is an artefact. More recently, economists have learnt (partly from historians) that the model of (neo-)classical economics does not fit the reality as we observe it. Certain economic events are not the result of static economic laws, but are the logical and reasonable outcome of earlier path-dependent historical events. Likewise, the role of institutions has been recognized in economic research. Institutions can be defined as the 'humanly defined constraints that shape human interaction' (North 1990: 3). These institutions can be government institutions, but also major companies, or property rights and administrative laws, or the whole complex set of locally defined norms and values which influences the economy. Even the colonial legacy which determines relationships between social groups can be viewed as an institutional factor. Such factors play an important role in economic development (e.g. Fukuyama 1995, North 1990). These paradigmatic developments show that historical research has made a contribution to present-day thinking about economic growth. Bringing institutions into economic history also implies paying attention to regional differences, particularly in a diverse and segmented economy as late colonial Indonesia was.

In the economic historiography of Indonesia several approaches have broken the national unity into different parts, allowing us to examine the economic structure of smaller entities within the national border. The traditional division was between Java and the Outer Islands (which even gave the Outer Islands their name – as *propinsi luar Jawa*).

The Java/Outer Islands dichotomy has been criticized as being artificial and not in accordance with diverging tracks of development in both regions. Sometimes, the distinction between Western Indonesia and Eastern Indonesia is more useful in the analysis. However, the basic structural differences between the Java and the Outer Islands provide ample reason to consider separately the economic situation in both parts. Breakdown into smaller units, if possible given the available data, can be added to this broad distinction.

The dichotomy between Java on the one hand and the Outer Islands is based on a set of obvious criteria. For many centuries, Java has been more densely populated, and has had a complex economy in which Dutch colonization played a large role for more than three centuries. In the Outer Islands, there was a much smaller population density; there was less control of the Dutch, there were large stretches of inaccessible rainforest, hidden mineral resources, and few roads. Also, the 'neglected' status of the Outer Islands in the historiography justifies explicit attention to the area at large. Another reason for approaching the Outer Islands as one entity is the common experience in export growth in these provinces.

In the first decades of the twentieth century in most Outer Islands the export trade increased, primarily in minerals and agricultural raw materials. In these decades the Outer Islands increasingly challenged Java as an economic powerhouse, producing many commodities for the export market. In many regions imports stayed far behind exports. These imports consisted mostly of rice and consumer goods, and not of capital goods. Meanwhile, in Java a more advanced economy required more capital imports and made hesitant steps towards industrialization (Clemens et al. 1992: 23, 25, 29, 45).

In the next section, the major regional economic contrasts *within* Java and the Outer Islands will be introduced briefly. Next, I will survey the effects of the 1930s depression in colonial Indonesia, keeping in mind the regional contrasts. I will focus on the regional differences from three perspectives: national income, foreign trade, and shipping from major ports. Insight into the structural components of the depression, such as the development in markets and prices, also allows us to pinpoint 'stronger' and 'weaker' regions within the country. The reactions of entrepreneurs during the depression will be briefly sketched. Finally, of one strong region, Palembang, the growth in the volume of trade will be reviewed by studying the shipping statistics of the port of Palembang.

### **Brief survey of regional economic contrasts**

In order to identify regional patterns within Java it is convenient to consider consecutively West, Central and East Java. In the period 1900-1940, West Java can be typified as a region incorporating multiple economic contrasts. Central Java was more homogeneous, while East Java could be divided into two main parts.

In West Java, the bustling capital at Batavia contrasted with adjacent Banten, and the landlocked estate area of Priangan contrasted with the commercial outward-looking residency of Cirebon. The volume of cargo shipped from Tanjung Priok and Cirebon both expanded substantially during the late colonial period. The lesser dependency on sugar made West Java less vulnerable to fluctuations in the world market (Lindblad 1992: 22-24).

In Central Java, the Principalities and several of the adjacent residencies formed the most densely populated parts of the Indonesian archipelago. Export production in Central Java was traditionally focused on sugar. After the collapse of the world market for sugar, necessary diversification was achieved with difficulty. Some rubber exports developed in Central Java, alongside the exports of petroleum from Cepu (located in the residency of Rembang). The regional trading-centre Semarang was Java's third gateway to the foreign world, after Batavia and Surabaya. In exports Cilacap developed into a significant second port in Central Java, even though situated on the relatively disadvantageous southern coast.

In East Java, finally, the dynamic port of Surabaya contrasted against the so-called Eastern Corner ('Oosthoek'). While the economy in the areas around Surabaya was more diversified, the eastern part (Probolinggo, Pasuruan, Panarukan and Banyuwangi) had a stronger concentration in sugar. Surabaya gained prominence as the major sugar port in colonial Indonesia, but also dominated in the import trade for the whole of East Java. Compared to Central Java, export diversification was more quickly achieved in East Java although also here, the collapse of the sugar industry in the 1930s meant widespread poverty in the countryside. After the downfall of sugar, food crop production, particularly the cultivation of rice, increased substantially (Booth 1989: 78; Lindblad 1992: 25-30).

In the Outer Islands, there were both very dynamic regions, such as East Sumatra, Palembang, and Southeast Kalimantan, and regions where economic development had a much slower pace, such as Tapanuli, Bengkulu, Maluku and the Lesser Sunda Islands. In Sumatra, the eastern provinces profited from the proximity of Singapore and the intensive trade across the Java Sea, while the western provinces were less strategically located. This explains the relative lagging behind of Padang in West Sumatra, which was a large port in the nineteenth century but could not keep up with the expansion of the trading centres on the eastern coast. The two main centres of economic activity were East Sumatra and Palembang. In East Sumatra, the Deli/Serdang agricultural estate area was located, and a large oil production complex was situated in Pangkalan Brandan. The port of Belawan developed into a large centre of economic activity, where ocean steamers anchored to load raw materials for overseas exports (petroleum exports were shipped from Pangkalan Susu). In Palembang, European production of petroleum and rubber was met by an almost

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equally productive Indonesian sector of smallholders producing rubber, coffee, and pepper (Zed 1996: 262).

Foreign trade formed the motor behind economic development in the Outer Islands. The main characteristics of export trade in the Outer Islands allow for a classification into four groups based on the presence or absence of large foreign exports, which could be due to either European or indigenous entrepreneurship (Touwen 1997: 55-60).

First, East Sumatra, Palembang, Southeast Kalimantan were provinces with both indigenous and substantial European export production. These provinces showed an enormous expansion of export production. During the period of expansion, 1905-1930, the surplus on the balance of trade of these provinces was much higher than the average trade surplus of the Outer Islands (on average this surplus was 53 per cent in the period 1905-1930, while in Java it was 24 per cent).

The European sector tended to be concentrated in relatively few areas in these provinces, while indigenous export agriculture was more widely spread. In East Sumatra, the Deli estate region was prominent as the major stronghold of European entrepreneurship outside Java. Here tobacco and rubber planters had created a large cultivated area, the only area in the Outer Islands where the majority of the population worked on large-scale agricultural estates (essentially Europeans, Chinese, and Javanese, together outnumbering the indigenous Batak). Part of the indigenous population took advantage of the expanded local market for foodstuffs formed by the estates. Former estate workers also found employment in this sector (Thee Kian Wie 1977: 110, 119-21). Many smallholders outside the estate area participated in export production, exporting rubber, copra and pinang nuts (areca palm). In Palembang, indigenous agriculture was better developed and produced a diversified package of coffee, rubber, pepper, rattan, and other products (Touwen 1997: 64-66). In Southeast Kalimantan the major indigenous export crop was rubber (Lindblad 1988). In these latter two provinces, agricultural estates were also established, but did not form such a large continuous area as they did in Deli.

Next to East Sumatra, Palembang, and Southeast Kalimantan, there were three smaller regions in the Outer Islands where European enterprise dominated export production: Riau, Bangka, and Belitung. In these provinces, however, European enterprise was to a much lesser extent accompanied by indigenous export agriculture. In Bangka and Belitung, economic life was largely determined by European tin mines. Riau's position was fairly extraordinary: the BPM oil depot on Pulau Sambo, close to Singapore, swelled foreign export figures, but only for a relatively brief period: 1911-1923. The Singkep tin mine in Riau was another example of European enterprise, as well as the relatively large presence of

European estates in this province cultivating rubber. However, in the mainland part of Riau, Indragiri, European economic activity was very limited. Here indigenous rubber agriculture was important. On average 56 per cent of the rubber exports of Riau was produced by indigenous smallholders in Indragiri.

In a third group of provinces in the Outer Islands, the bulk of the exports originated from the indigenous economy: Aceh, West Sumatra, Jambi, Lampung, West Kalimantan, South Sulawesi, Manado. In most cases these provinces concentrated on a narrow range of export crops, but this did not prevent them from displaying considerable economic dynamism. These exports were not at all times spectacularly large, but in each of these provinces, exports had a large impact on economic life. In several provinces, particularly West Sumatra and South Sulawesi, the exports were largely destined for the domestic market. Smallholder agriculture produced large quantities of rubber, coffee, and copra, but also showed an interest in producing a variety of minor products for the export market. The production of handicraft goods such as *batik* or cane and reed items got off the ground only hesitantly, and played only a small role in the economy at large.

The presence of navigable rivers and of fertile plains within a province were important factors in the development of indigenous trade. But ecological characteristics varied within this third group: from wide, swampy plains and impenetrable rainforest to mountainous and hilly terrain. This apparently did not form a major impediment to commercially oriented indigenous peasants, although it did partly determine which cash crop could be cultivated. For instance, in West Sumatra, mountain-loving coffee flourished, whereas in West Kalimantan and Jambi indigenous rubber was omnipresent. Although mountainous South Sulawesi exported coffee as well, here copra developed into the major export commodity, especially in the 1920s and 1930s.

Finally, there were six provinces that produced very little for foreign exports and as a consequence remained behind in economic development. This fourth group consists of Tapanuli, Bengkulu, Bali, Timor and Dependencies, and Maluku. Several of these provinces, Bali and Timor, as well as Bengkulu (and also Lampung), exported a large share of their export production to Java. When we consider this interregional trade with Java, their export production suddenly appears to have been much larger, although never as large as in the previous group. If one ranks the Outer Islands to various economic criteria, Bali and Timor (the Lesser Sunda Islands) are usually situated at the bottom of the list: they had little trade, little agriculture, and little prosperity, even during the 1920s, when revenues from indigenous exports were highest. In Tapanuli, Maluku, Bali, and Timor and Dependencies, stagnation prevailed with few signs of economic

expansion. However, it should be noted that on close scrutiny, these provinces showed local economic dynamism, and gradual change on a lower level.

### **Expansion in foreign trade**

Now that the regional variations in economic development within Java and in the Outer Islands have been reviewed, it is instructive to survey the periods of export expansion before the 1930s depression set in. Total foreign exports from colonial Indonesia rose impressively during the period 1900-1929 (Figure 1). Three phases of expansion can be distinguished during this period (Lindblad 1992: 20). The initial expansion took place from 1909 to 1913, when exports from the Outer Islands rose from 142 to 320 million guilders (in current prices). This expansion can be ascribed mainly to the increase in oil exports from Southeast Kalimantan (Balikpapan), East Sumatra (Pangkalan Brandan, Pangkalan Susu), and Riau (oil depot on Pulu Sambu). The second stretch of growth followed in 1919 and 1920 upon the increase in demand resulting from the First World War: exports from Java rose to about one and a half billion guilders during the immediate post-war boom, and from 300 to 750 million guilders in the Outer Islands (at current prices). Growth ended when these lagging demands were fulfilled, and world demand fell briefly during the recession of 1921-1922. After 1922 (in Java) and 1924 (in the Outer Islands), a new burst of expansion took place, this time climbing rapidly to unprecedented heights.

These data show that the first half of the inter-war period, 1922-1929, was a period of increasing prosperity and rising export volumes. 'The high prices had a bewitching effect', writes Gonggrijp (1938: 197). The world economic depression following the Wall Street crash in October 1929 made short work of these unbridled trade revenues, and euphoria was replaced by shock. Bad as it may seem, it should be kept in mind that the price level had already decreased substantially after 1925. The depression accelerated a process that was already underway: the world market was flooded by a continuously increasing supply of cheap raw materials. The effects were to be felt in Indonesia as well as in the rest of the world.

### **The depression in colonial Indonesia**

The depression caused a fall in GDP in Indonesia, due to a fall in export prices and in real money supply. In the world market demand slackened and prices dwindled. Subsequently, all export producers experienced a severe decrease in revenues due to falling prices. The sugar industry in Java collapsed, but export culture in other commodities was also hit severely. Qualitative evidence accounts of the widespread poverty which resulted from the depression, both in Java and in the major export provinces in the Outer Islands (O'Malley 1977). But simultaneously, rice and total



foodcrop production increased. A striking event in the Indonesian economy was the strong deflation, particularly in the rural areas. This reduced the cost of living in Batavia in 1934 to 41 per cent of its 1928 value; the rural Java food price index in 1934 was only 41 per cent of the 1928 value (Booth 1998: 40). Large groups who lived in densely populated areas and worked in the sugar industry were stricken with poverty, while other groups of the population, such as civil servants and owners of real estate, saw their incomes increase during the depression.

Alterations in the import purchasing power of exports can be expressed in the 'income terms of trade'. This is the terms of trade (= average export price divided by average import price) multiplied by the volume of exports, which yields a measure of the purchasing power of a country as generated by its exports. (In fact, this is equal to the export revenues deflated by the import price index.) When the prices of raw materials in the world market fall faster than the prices of imported goods, this is disadvantageous to export economies such as Indonesia. Indeed, for the whole of Indonesia the income terms of trade fell steeply between 1927 and 1933, although it immediately recovered in the later 1930s (Booth 1989: 69, 87). It should be noted that the sugar price fell very dramatically, which left Java with a much lower level of income terms of trade than the Outer Islands, where exports fetched a relatively slightly better price.

Although the fall in prices in the world market caused a severe downfall in export revenues, the *volume* of exports did not contract very substantially. In some regions, expansion of output even made up for a loss in unit prices. On the whole, the economic situation in the Outer Islands was much different from that in Java. Since Java was densely populated and had concentrated on the exports of sugar, it had two weaknesses that the Outer Islands had not. In the following three sections I will explore these regional differences from three perspectives: income, trade, and shipping.

#### ***(a) Regional contrasts in income***

Various efforts have been made in reconstructing the national income of pre-war Indonesia, for example by Fievez de Malinez van Ginkel (in 1930) and Götzen (in 1933) before the war, and Polak (1943) (= Creutzberg 1979) after the war. Van Laanen (1989) gives a systematic survey of these exercises, while Van der Eng (1992) reconstructs Indonesia's national income over a longer period. According to Booth, Van der Eng underestimates the output of manufacturing in the 1930s (Booth 1998: 42). To summarize Booth, Indonesian GDP growth in per capita terms accelerated between 1901 and 1928 to close to 2 per cent per annum, fell sharply from 1929 to 1934, but recovered rapidly from 1934 to 1941. In 1942 GDP per capita was probably slightly higher than its pre-depression peak (Booth 1998: 45).

According to Polak, the income per head of the indigenous population and the Europeans in the Outer Islands was higher than in Java, and remained higher during the

depression (Table 1.a and 1.b). Only for Foreign Asiatics (Chinese, British Indians, Arabs) the income per capita in Java in 1930 was higher than in the Outer Islands (Creutzberg 1979: 75-77).

**Table 1.a: Income per capita of working population (guilders)**

	Indonesians		Europeans	
	Java and Madura	Outer Islands	Java and Madura	Outer Islands
1930	157	207	7,800	8,900
1939	79	107	5,200	5,700

*Source:* Creutzberg 1979: 75.

*Note:* The original table also includes foreign orientals.

**Table 1.b: Income per capita (guilders)**

	Indonesians		Europeans	
	Java and Madura	Outer Islands	Java and Madura	Outer Islands
1930	55	66	2,300	3,200

*Source:* Creutzberg 1979: 77.

*Note:* The original table also includes foreign orientals.

Polak points out that the relative differences between population groups are more or less the same whether one observes income per worker or income per capita of the entire population. The difference between Java and the Outer Islands was the largest in 1925 and 1937, because of the large rubber earnings in those years, which of course favoured those Outer Islands provinces where rubber was produced (mainly East Sumatra, Palembang, Jambi, West Kalimantan, Southeast Kalimantan). During most years between 1921 and 1940 the income per worker in the Outer Islands was between 30 and 40 per cent higher than in Java. Of course, unreliable and incomplete population figures for the Outer Islands make this comparison rather rough. Moreover, as Polak emphasizes, these estimations are 'handicapped by the extreme differences in income between the most prosperous and the most backward regions of the Outer Islands' (Creutzberg 1979: 75).

### **(b) Regional contrasts in trade**

Foreign exports from the Outer Islands recovered more quickly from the depression than those from Java. This becomes clear when comparing current values (Figure 1). It should be mentioned that in real terms, exports were of a much more stable level - while the fall in unit prices reduced export revenues, export volumes expanded. However, applying one aggregate index figure in order to express exports in constant prices is not useful in a regional comparison, because the differences in composition in the export package, which explain the differences in export revenues, would also

require a differently composed aggregate index figure (see also Van Ark 1988). Booth states that between 1928 and 1934 the aggregate export volume fell by almost 4 per cent per annum (Booth 1998: 40). As shipping statistics show, the volume of trade picked up quickly after that year (see below).

The difference between Java and the Outer Islands stems from two connected factors. First, the prices of several export products from the Outer Islands (oil, coffee, tin, and to a lesser extent rubber, of which the price recovered after 1934) were higher or recovered more quickly than the price of sugar, which was Java's main export product. Secondly, the volume of exports from the Outer Islands could expand, which to a certain extent counterbalanced the effects of the depression.

During the recovery after 1936, the surplus on the balance of trade in colonial Indonesia was initially enlarged as a percentage of export revenue (Figures 1, 2, 3). This could be interpreted as a sign that the purchasing power of large segments of the population suffered in the long run, because in an industrializing country one would expect the surplus to decrease due to increasing imports. However, this macroeconomic observation is misleading. If we study the differences in the surplus on the balance of trade for Java and the Outer Islands separately, its cause can be more precisely located. In fact, the surplus percentage recovered more quickly in the Outer Islands, where exports expanded, than in Java, where after 1937 the surplus on the balance of trade rapidly declined. The source of the decline of the surplus in Java was rather lagging exports than increasing imports. In the Outer Islands, imports did increase, only exports increased even more rapidly. This is interesting because it shows that regional analysis is illuminating and useful.

If we include interregional exports from the Outer Islands to Java or the other Outer Islands, export recovery would be even stronger. Interregional exports in raw materials often went to Java to be re-exported to overseas destinations. Another part of the export trade was 'through-trade' using bills-of-lading, which means it was listed in the statistics as foreign exports but it went to Javanese ports first – thus being included in the shipping statistics. We may conclude that interregional exports facilitate a more complete picture of the Outer Islands exports. This is particularly true for the smaller Outer Islands such as the Lesser Sunda Islands, which traded much with Java. In the meantime, the imports of Outer Islands from Java mainly consisted of consumer goods or import goods. In short, the expansion of interregional trade after 1935 to and from Java formed a sign of economic growth in the Outer Islands (Touwen 1997: 337).

Another indication of rapid recovery in the Outer Islands is the increase in the share of imports of iron. Iron imports increased in absolute terms between 1931 and 1940. In 1931/34 the Outer Islands imported on average 25.6 per cent of all Indonesian iron imports (about 14 million guilders per year), while in 1935/40 the Outer Islands imported on average 48.5 per cent the iron imports (about 32 million guilders per year). Within the whole of Indonesia, Sumatra received an increasing share of the iron

imports. During the latter period, in 1935/40, circa 40 per cent of the iron imports entered Sumatra (Clemens et al. 1992: 77, 83-84).

Having compared the Outer Islands with Java, several brief remarks should be made about the diversity within the Outer Islands. Within the Outer Islands, it is interesting to note that some provinces experienced a sharp peak in export revenues in 1925-1927, and a more severe decline in 1930-1934, while other provinces kept up a steady flow of income from exports for a longer period of time. When the depression set in, the first group immediately felt the effects of the decreasing price level (particularly East Sumatra, Jambi, West Kalimantan, but also provinces with smaller output such as Indragiri and Bengkulu). The group of provinces with more steady export revenues included West Sumatra, Palembang, South Sulawesi, and Aceh. These provinces expanded their exports faster than revenues could diminish, or exported products for which prices remained relatively stable. It is difficult to pinpoint one product or a combination of products that is responsible for these differences in market sensitivity - or, for that matter, that would make the 'ideal' export package. Generally speaking, revenues from petroleum exports suffered less from the depression than other types of export revenue. Within agriculture, the coffee price remained higher than the prices of rubber and copra. As a tropical consumer product, the demand for coffee was relatively stable. The downfall in the price of rubber was caused by over-supply and decreasing demand due to falling industrial production (and development of synthetic rubber). Copra, which was used in the vegetable oil industry, did slightly better than rubber in the early years of the depression, but had to compete with substitute materials. Since it was, like smallholder rubber, very cheaply produced, the volume of copra output kept increasing.

### *(c) Regional contrasts in shipping*

The rapid recovery of exports in the Outer Islands is confirmed by the data on shipping. The total volume of goods shipped into or out from one port represents the volume of trade. The aggregate shipping movements in major ports around the Java Sea decreased substantially during the depression years in 1929-1932 (Figure 4). The fall in volume in the Javanese ports was significantly larger than in the Outer Islands ports. For example, in 1929 the total volume of ships arriving in (and leaving from) Tanjung Priok, the port of Batavia, was more than 20 million M3. In 1932 the volume had fallen to 15 million M3.

In some Outer Islands ports, particularly in Palembang, Mentok, and Belawan, there was only a brief dip in the volume of trade. In Palembang this was followed by an unbridled expansion from 3.5 million in 1931 to 7.5 million in 1938 (Figures 5 and 6). These aggregate shipping volumes include both overseas and coastal trade, but focusing on overseas shipping yields the analogous results. It can be concluded that

colonial Indonesia did not suffer any major loss in the sphere of competition in foreign markets.

### **Small profit margins and increasing output**

In short, the export producers in the Outer Islands reacted to the depression by reducing production costs and expanding output. In Sumatra, agricultural estates reacted to the depression by cutting costs and dividend payments. The peasants also introduced cheaper production methods. Rubber smallholders, for example, often sent away tapping coolies and started tapping the trees themselves or with their families. Also, the harvest share that was paid to the tapper could increase from one half to two-thirds or three-fourths of the product (Purwanto 1996: 183). Thus a very small profit margin was feasible, making supply very inelastic in relation to price changes. Expanding output could partially make up for the drop in prices. This occurred both in rubber and in the oil industry. These mechanisms of adaptation and compliance could be observed mainly in the Outer Islands. In Java, peasants that had worked in the sugar industry returned to cultivating their own rice and other food crops.

It should be noted that during the late colonial period, the dualist economy of smallholders and Europeans in Sumatra had displayed two different production strategies. The European estates had imported labour on a large scale, had constructed large buildings and factories, and had built railways and roads. In short, they made all sorts of investments in their economic 'enclaves'. Within their estate they incorporated planting, harvesting, packing, processing, and even transports by constructing narrow-gauge railway lines. Productivity increase was based on economies of scale and technological investment. This explains that while prices were high, the plantation economy was booming, while lower prices necessitated severe cuts in expenditure. The smallholders, by contrast, concentrated on planting trees and harvesting the product, in a relatively small-scale and low-capital manner. They formed small elements in a chain of producers, agents, traders, and middlemen. To look again at smallholder rubber as an example, this indigenous rubber underwent only limited basic processing and was remilled in Singapore. This was a more cost-efficient and a much more flexible way of producing rubber than by installing all machinery on the plantation itself. The role of Singapore as a trading centre and entrepot port near at hand was essential in the development of the dynamic smallholder export production in Sumatra. During times of hardship, this Asian network was more efficient than the cost-intensive European estates. The rapid way the Asian sector expanded and threatened to take the lead in agricultural exports supports this thought.

In his article on estimating Indonesia's national income, Van der Eng emphasizes that the domestic market, next to the world market, was an important force in triggering accelerated growth in Indonesia. When infrastructural provisions expanded

(construction of roads, railroads, bridges, port facilities and development of regular and reliable interisland shipping lines) this favoured an economic integration in the country and stimulated interregional exchange of commodities and services. The large indigenous population, which acquired increasing purchasing power, formed a stimulus for further growth (Van der Eng 1992: 256). This is reflected in the continuous expansion of domestic shipping, in particular in the Outer Islands. It suggests that the economy became less vulnerable to exogenous shocks.

In order to get a clear picture of how specific provinces expanded against the tide of the economic situation, let us focus explicitly on the province Palembang in southern Sumatra.

### **Unbridled expansion of shipping in Palembang**

Different types of ships were responsible for the expansion of the volume of cargo handled in the Indonesian ports. Motorships gradually took over from steamships, although this happened primarily in the Javanese ports. In Palembang both motorized and steam navigation increased in number between 1925 and 1939. This was the case in both overseas and coastal trade: modernization arrived in Batavia first, where motorships replaced steamships, while numbers of both types of ships increased in Palembang.

The predominant cause of the enormous expansion of trade in Palembang between 1925-1939 was the increase in motorships with overseas destination. While in 1925 motorships with a total capacity of 25 thousand ton landed in Palembang, in 1937 this category of ships carried a total capacity of 2,470 thousand ton, or roughly one hundred times more.

It is interesting to note that in the years 1925/38 on average 53 per cent of the ships arriving in Tanjung Priok (3,125 out of 5,840 ships) were sailing ships, although on average, they constituted merely 0.6 per cent of total capacity shipped in Batavia (98 thousand ton out of 16,449 thousand ton per annum). This was a relatively constant share, indicating that a lot of small-scale trading was going on in the port, albeit with a relatively small aggregate capacity. In Palembang, sailing ships could not keep up with the increase in steamships and motorships, since the latter two categories almost tripled in number between 1925 and 1938. While in 1925 sailing ships constituted 39 per cent of all annual coastal and overseas arrivals (397 out of 1,025 ships), in 1938 this had decreased to 18 per cent (311 out of 1,967 ships). These sailing ships in Palembang were responsible for a slightly larger share of freight capacity than in Batavia, constituting on average 1.9 per cent in 1925/38 (=74 thousand ton out of 4,435 thousand ton per annum on average). By contrast, in Belawan (East Sumatra) the small-scale trade increased in numbers during this period. A steadily increasing number of sailing ships was attracted by the mainport of the Deli estate area: in 1925, sailing ships

from overseas or coastal provenance constituted 34 per cent of all arriving ships (765 out of 2,234 ships) while in 1938 this percentage had risen to 44 per cent (1,418 out of 3,318), which entailed an average of 0.7 per cent of all shipped cargo in Belawan in 1925-1938 (= 56 thousand ton out of 8,788 thousand ton per annum on average).

While in most ports the total volume of overseas and coastal trade experienced a dip during the depression years (1929-1934), which only slowly recovered, Palembangs trade was booming from 1931 onward (Figure 5 and 6). As to the direction of trade, Palembang's expansion was almost equally due to increase overseas and coastal shipping. Demand in overseas markets for some of Palembang's exports suffered relatively little from the depression (coffee, pepper). supply in several other products was very competitive (rubber, petroleum). The aggregate export volume grew impressively, only falling back a little in 1930. When such expansion of trade took place in other ports it was without this high rate of growth.

## Conclusion

It is not a very revolutionary observation to assert that the strength of Indonesia lies in its diversity. But the analysis of stronger and weaker regions within the national economy enables us to approach the consequences of the depression of the 1930s in a useful manner. While the aggregate picture may have been bleak, some regions expanded against the tide of the world economic situation. Particularly the causes and characteristics of developments on a regional level indicate the underlying strength of the economy.

The comparison with the present-day crisis in Indonesia illustrates this. Due to the financial crisis of 1997, the foreign exchange rate of the rupiah fell dramatically. Ironically, again the export producers of raw materials such as palm oil, mainly in the Outer Islands, profited from the competitive market situation due to the cheap rupiah. This reminds of the way they profited in the pre-war depression of relatively profitable export products such as petroleum. It is ironical that the exchange rate development was opposite in the 1930s: there was deflation and the guilder was expensive (it remained attached to the Gold Standard until 1936). However, before the war the Indonesian economy was to a high extent geared towards exports of raw materials, while nowadays there is a much more developed economy which depends to a higher degree on imported materials or supplier products (which suffer from a cheap rupiah). Yet another resemblance with the 1930s provides more optimistic signals. An increasing domestic economic integration provides growth incentives and the foundation of stable domestic demand. In this regard the complementarity of Java and the Outer Islands offers an advantageous feature of Indonesia's economy. Again, as in the 1930s, the

relative dominance of Java, where industrialization has progressed further, can be balanced by a strong economic role of the Outer Islands both in raw materials production and in domestic demand. A sound government policy, however, is vital to redistribute revenues and allow for decentralization of power to remoter regions with an expanding economic role.

In the 1930s the colonial government started to intervene by establishing trade barriers, thus ending the era of free trade. Import restrictions were introduced, in particular to limit imports from Japan, as well as export restrictions in rubber, tea, and tin. It is generally agreed upon by historians that recovery from the world economic depression of the 1930s was delayed by the protectionist policies of national governments. In January 1999, the Indonesian government raised the export tax on palm oil (of which Indonesia is the world second largest producer) from 40 to 60 per cent in order to prevent all palm oil being sold abroad, protecting the interests of the Indonesian population. Many economists claim that it is more efficient to stimulate trade and let the money thus earned improve the domestic situation. In general, protectionist measures may inhibit economic growth in the long run. Another present-day example is the fishing industry, which suffered from the expensive prices of boats. For imported vessels a high tariff had to be paid, a measure which aimed at promoting domestic ship building industry (*Far Eastern Economic Review*, 21 January 1999). Issues like these remain important in discussions about economic policy.

The depression of the 1930 was characterized by a severe fall in prices, and a subsequent reduction of revenues and incomes. The effects of the depression were much less dramatic in the Outer Islands than in Java. There was less population pressure in the Outer Islands and there was more opportunity to rely upon local food production. Besides, in regions such as Palembang, smallholders could increase their output volumes. It is remarkable that in many provinces in the Outer Islands, the volume of trade did not severely decrease. Eye-witness accounts in the archival sources of local economies grinding to a halt, or roads and harbours being deserted, should not be taken too literally when the eye is cast over the cargo transported in and out of the ports, or at least related only to a brief time-span. Of course, one should bear in mind that the revenues of all these activities were much smaller. This effect was partly counterbalanced by imports being cheaper as well, allowing estates and factories to reduce production costs. In the meantime, indigenous peasants managed to produce export commodities with a very small profit margin. By expanding their output they could resist the bad times very effectively. In the 1930s, it was better to live in the Outer Islands than in Java.



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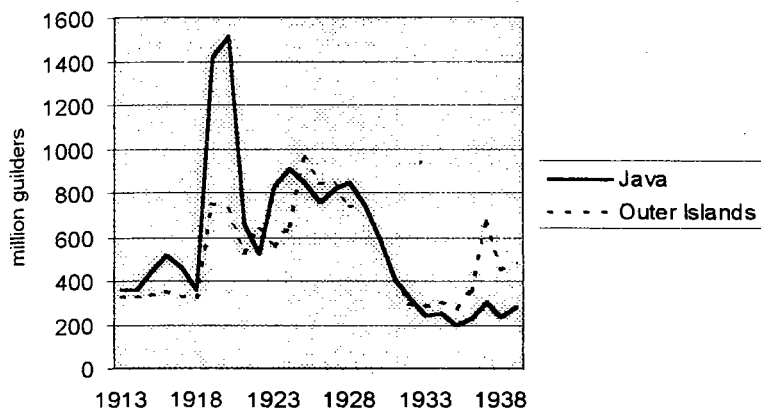
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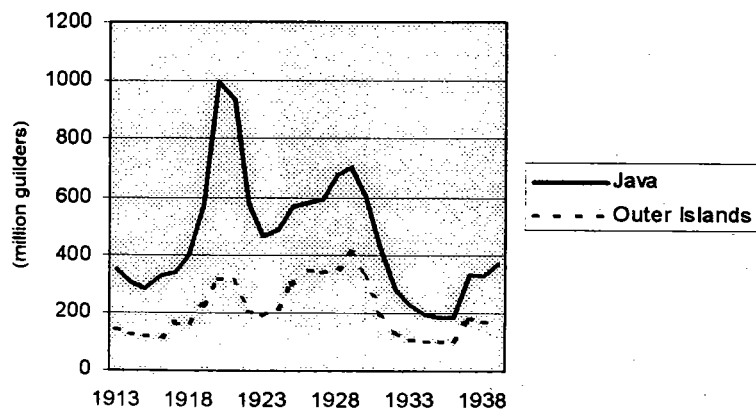
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**Figure 1: Foreign export from Indonesia, 1913 - 1939**



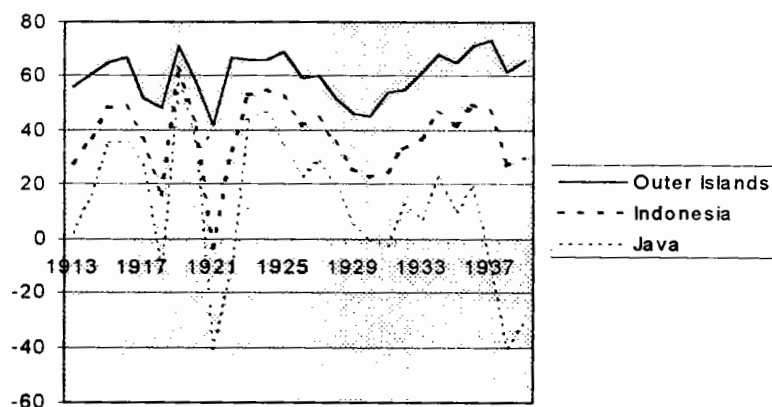
Source: Korthals Altes 1991: 73 - 75

**Figure 2: Foreign imports into Indonesia, 1913 - 1939**



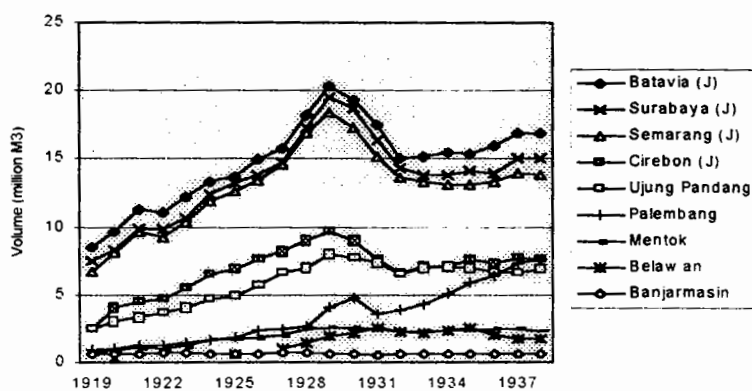
Source: Korthals Altes 1991: 54 - 56.

**Figure 3: Surplus on the balance of trade as a percentage of export revenue, 1913 - 1939**



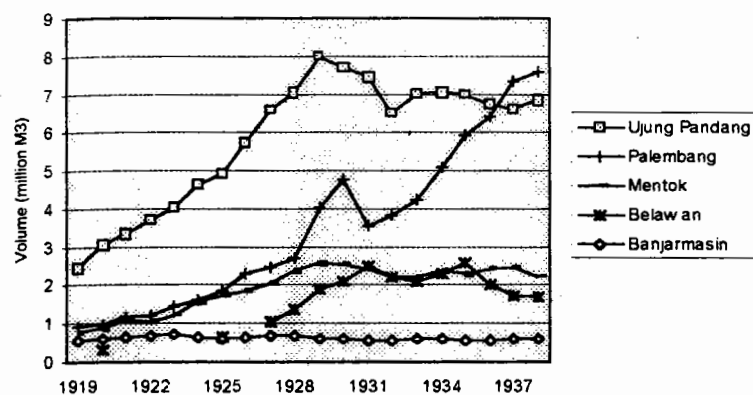
Source: Korthals Altes 1991: 54 - 56. 73 - 75.

**Figure 4: Total volumes shipped in selected ports, 1919 - 1939**



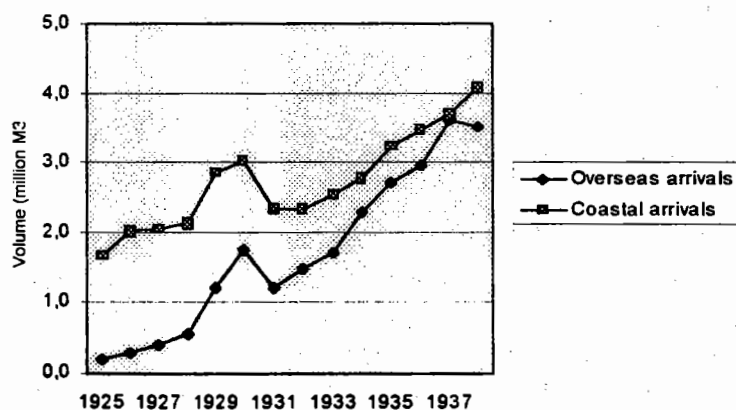
Source: *Statistiek Scheepvaart* 1910 - 1939.

**Figure 5: Total volume shipped in selected outer islands ports, 1919-1939**



Source: *Statistiek Scheepvaart 1910 - 1939*.

**Figure 6: Overseas and coastal shipping in Palembang, 1925 - 1938.**



Source: *Statistiek Scheepvaart 1910 - 1939*.